

**Management Advisory Report: The Internal
Revenue Service Needs a Reliable Measure of
the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and
Self-Employed Taxpayers**

July 2002

Reference Number: 2002-30-120

This report remains the property of the Treasury Inspector General for Tax Administration (TIGTA) and may not be disseminated beyond the Internal Revenue Service without the permission of the TIGTA.



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 5, 2002

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION
COMMISSIONER, WAGE AND INVESTMENT DIVISION

Scott E. Wilson

FROM: (for) Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report - The Internal Revenue
Service Needs a Reliable Measure of the Quality of Electronic
Tax Law Assistance Provided to Small Businesses and
Self-Employed Taxpayers (Review # 200130044)

This management advisory report presents the results of our review to determine whether the Internal Revenue Service (IRS) has a valid method for reliably measuring the quality of responses to tax law questions received from small businesses and self-employed taxpayers through the Electronic Tax Law Assistance (ETLA) Program. We performed this review in response to the continuing Congressional concern with the IRS' ability to provide accurate tax law information to small business taxpayers.

In summary, the quality measurement system for the ETLA Program has not been changed to reflect the IRS' new organizational structure. While a statistically valid measure of quality for the ETLA Program is available at the IRS-wide level, separate measures are not available on the quality of responses to questions received from each major customer segment. Without a separate measure, the IRS is precluded from reliably determining the quality of service being provided to small businesses and self-employed taxpayers.

We recommended that the IRS take action to develop reliable measures of the quality of service provided to each customer segment through the ETLA Program. One way that this could be accomplished is by redesigning the IRS' Internet web site, *Digital Daily*, so that taxpayers are required to select a specific customer segment before submitting tax law questions through the ETLA Program. This would enable the IRS to more precisely identify the population of questions received from each customer segment and, in turn,

design a statistical sampling plan that can reliably measure the quality of service being delivered to each segment.

Management's Response

The Commissioner, Small Business/Self-Employed (SB/SE) Division, responded that, while he agrees with the recommendation, there is a concern that capturing data about the type of customer (i.e., wage earners, self-employed, etc.) moves away from the Commissioner's intention for the public portal to provide a totally anonymous, one-way interaction with the IRS. The SB/SE Division will work with the Internet Services Division of the Electronic Tax Administration organization to determine if the recommendation is feasible. The planned completion date of the feasibility study is January 1, 2003.

Office of Audit Comment: We appreciate the IRS' concern with wanting to maintain the anonymity of taxpayers when they interact with the *Digital Daily*. Since the IRS already requires taxpayers to provide their Email address when submitting questions to the ETLA Program, however, we do not believe that also requiring taxpayers to indicate a particular customer segment would further diminish the anonymity that they are already provided. Nevertheless, to avoid any perception that this additional information might be used to identify taxpayers, the IRS could include a disclosure statement on the *Digital Daily* that states that the customer segment information is solely used for measuring the quality of service provided.

Management's complete response to the draft management advisory report is included as Appendix VI.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions or Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

Table of Contents

Background	Page 1
The Internal Revenue Service Does Not Have Reliable Measures of the Quality of Electronic Tax Law Assistance Provided to Each Customer Segment.....	Page 3
<u>Recommendation 1:</u>	Page 8
Appendix I – Detailed Objective, Scope, and Methodology	Page 10
Appendix II – Major Contributors to This Report.....	Page 12
Appendix III – Report Distribution List	Page 13
Appendix IV – Senator Bond’s Letter to the Internal Revenue Service	Page 14
Appendix V – Internal Revenue Service’s Response to Senator Bond.....	Page 16
Appendix VI – Management’s Response to the Draft Report	Page 18

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

Background

The Internal Revenue Service (IRS) Restructuring and Reform Act of 1998¹ (RRA 98) mandated that the IRS do a better job of meeting the needs of its customers. To comply with this Congressional mandate, the IRS revised its mission statement to refocus its emphasis on helping taxpayers understand and meet their tax responsibilities, and modernized its organizational structure from one that was based on function and geography to one that is aligned with its major customer segments. Four new customer-focused business operating divisions² were created with full end-to-end responsibility for serving distinct groups of taxpayers with similar needs.

One of these, the SB/SE Division, serves about 7 million small businesses, including corporations and partnerships with assets under \$10 million, and 33 million individuals that are fully or partially self-employed. Small businesses and self-employed taxpayers need specialized services from the IRS to comply with an increasingly complex tax code. The National Taxpayer Advocate's Fiscal Year (FY) 2000 Annual Report to the Congress rated the complexity of business tax laws as one of the most serious problems facing taxpayers, and stated that the complexity of the tax code can drive some small businesses into technical noncompliance.

One of the IRS' performance goals is to provide taxpayers with greater access to assistance before they file their tax returns. The IRS provides a variety of pre-filing assistance to taxpayers through its tax publications, its toll-free telephone system, and its Internet web site called the *Digital Daily*. The IRS' Electronic Tax Law Assistance (ETLA) Program provides a means for taxpayers to submit tax law and procedural questions through the *Digital Daily*. Each question is routed to an assistor who responds to the taxpayer in the form of an Email message. Taxpayers will generally receive a response from the IRS within 2 business

¹ Pub. L. No. 105-206, 112 Stat. 685 (1998).

² The IRS' four new operating divisions are the Large and Mid-Size Business Division, the Small Business/Self-Employed (SB/SE) Division, the Tax Exempt and Government Entities Division, and the Wage and Investment (W&I) Division.

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

days. During FY 2001, the IRS answered approximately 264,000 questions that were submitted through the ETLA Program.

During both the 2000³ and 2001⁴ Filing Seasons,⁵ auditors from the Treasury Inspector General for Tax Administration (TIGTA) submitted questions on small business and self-employment issues through the Internet to the IRS and commercial web sites that offered free tax advice. While the IRS outperformed the commercial web sites in both years, the IRS' accuracy rates in answering the questions were significantly below its official quality measure for the ETLA Program. However, the prior reviews involved only 50 test questions and, thus, were not a statistically reliable measure of the quality of service provided to small businesses and self-employed taxpayers.

In reaction to our 2001 Filing Season review, the Ranking Member of the Senate Committee on Small Business and Entrepreneurship issued a letter (see Appendix IV) to the IRS Commissioner expressing disappointment with the results. The Senator further stated that the relatively low accuracy rate puts small businesses and self-employed taxpayers at substantial risk if they rely on the IRS for assistance in complying with the tax law. The Commissioner, SB/SE Division, responded (see Appendix V) to the Ranking Member that the IRS' own statistically valid sampling of ETLA Program responses showed the IRS was accurate almost 83 percent of the time.

This review was performed at the SB/SE Division's offices in Oxon Hill, Maryland, and at the IRS' Centralized Quality Review Site (CQRS) in Philadelphia, Pennsylvania. We

³ *Management Advisory Report: Comparison of Responses to Small Business/Self-Employed Taxpayer Questions from the Electronic Tax Law Assistance Program and Other Internet Tax Law Services* (Reference Number 2000-30-126, dated September 2000).

⁴ *Management Advisory Report: The Electronic Tax Law Assistance Program Outperformed Other Free Internet Web Sites in Answering Small Business and Self-Employment Tax Law Questions* (Reference Number 2001-30-155, dated September 2001).

⁵ The Filing Season is the period from January through mid-April during which most individual income tax returns are filed.

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

**The Internal Revenue Service
Does Not Have Reliable Measures
of the Quality of Electronic Tax
Law Assistance Provided to Each
Customer Segment**

performed our review between December 2001 and March 2002 in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*. Detailed information on our review objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

The quality measurement system for the ETLA Program has not been changed to reflect the IRS' new organizational structure. As a result, the IRS does not have a separate, statistically reliable measure of the quality of service that the ETLA Program is providing to small businesses and self-employed taxpayers.

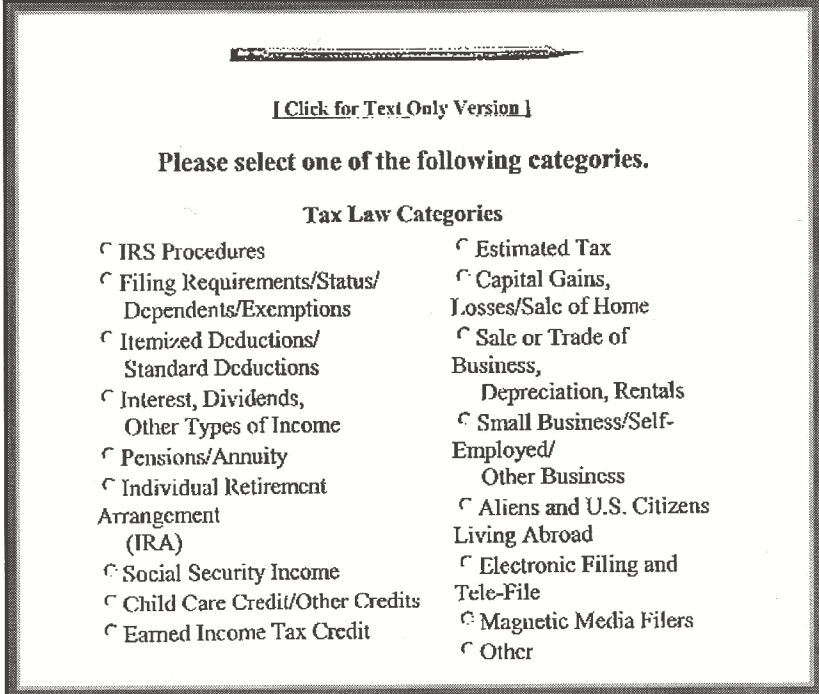
The IRS has a centralized quality review site that samples Email responses for accuracy. The reviewers follow a sampling plan that is designed by the IRS Statistics of Income (SOI) function. The sampling plan requires the selection of Email responses without regard to the type of taxpayer or tax law category. The SOI function advised us that the IRS' quality measure for the ETLA Program is statistically valid at only the IRS-wide level. Therefore, the IRS' accuracy rate for the ETLA Program is not statistically reliable for gauging the quality of assistance provided to a specific customer segment.

**The Digital Daily does not enable the IRS to separate the
tax law questions received from each customer segment**

Although the IRS modernized its structure in 2000 by aligning its operations along specific customer segments, the current design of the *Digital Daily* prevents the IRS from precisely determining which customer segment submitted a question. Presently, all taxpayers access the same site on the *Digital Daily* to submit a question. Every taxpayer submitting a tax law question on the *Digital Daily* must select one of the 17 categories shown in Figure 1.

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

**Figure 1. Tax Law Categories Available for Electronic Tax Law
Assistance on the IRS' *Digital Daily* Web Site**



The screenshot shows a web interface with a header bar at the top. Below the header, there is a link that says "[Click for Text Only Version]". Underneath this link is the instruction "Please select one of the following categories." followed by a section titled "Tax Law Categories". This section contains two columns of radio button options. The first column lists: IRS Procedures, Filing Requirements/Status/Dependents/Exemptions, Itemized Deductions/Standard Deductions, Interest, Dividends, Other Types of Income, Pensions/Annuity, Individual Retirement Arrangement (IRA), Social Security Income, Child Care Credit/Other Credits, and Earned Income Tax Credit. The second column lists: Estimated Tax, Capital Gains, Losses/Sale of Home, Sale or Trade of Business, Depreciation, Rentals, Small Business/Self-Employed/Other Business, Aliens and U.S. Citizens Living Abroad, Electronic Filing and Tele-File, Magnetic Media Filers, and Other.

[Click for Text Only Version]

Please select one of the following categories.

Tax Law Categories

<input type="radio"/> IRS Procedures	<input type="radio"/> Estimated Tax
<input type="radio"/> Filing Requirements/Status/ Dependents/Exemptions	<input type="radio"/> Capital Gains, Losses/Sale of Home
<input type="radio"/> Itemized Deductions/ Standard Deductions	<input type="radio"/> Sale or Trade of Business,
<input type="radio"/> Interest, Dividends, Other Types of Income	<input type="radio"/> Depreciation, Rentals
<input type="radio"/> Pensions/Annuity	<input type="radio"/> Small Business/Self- Employed/
<input type="radio"/> Individual Retirement Arrangement (IRA)	<input type="radio"/> Other Business
<input type="radio"/> Social Security Income	<input type="radio"/> Aliens and U.S. Citizens Living Abroad
<input type="radio"/> Child Care Credit/Other Credits	<input type="radio"/> Electronic Filing and Tele-File
<input type="radio"/> Earned Income Tax Credit	<input type="radio"/> Magnetic Media Filers
	<input type="radio"/> Other

Source: IRS Internet Web Site, *Digital Daily*.

The computer system used to support the ETLA Program retains the tax law category that was selected by the taxpayer. However, this information is not particularly useful for determining the customer segment to which the taxpayer belongs. While some of the tax law categories, such as *Small Business/Self-Employed/Other Business*, specifically target small businesses and self-employed taxpayers, many others are applicable to multiple customer segments. For example, questions submitted in the tax law category – *Individual Retirement Arrangement (IRA)* – could be received from wage earners, self-employed, or businesses. In addition, questions submitted in the tax law category – *Other* – cover a broad spectrum of topics that pertain to all customer segments.

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

At the CQRS site, we examined 994⁶ electronic tax law questions that were selected for quality review during the 2001 Filing Season and determined that 190 (19 percent) involved issues that generally would be associated with small businesses or self-employed taxpayers. Overall, as shown in the following table, these 190 taxpayers selected 11 (65 percent) of the 17 tax law categories shown on the *Digital Daily* when submitting questions to the IRS. Of these 190 taxpayers, 34 (18 percent) selected *Other* as the tax law category when submitting their question. Only 105 (55 percent) of the 190 taxpayers selected the two tax law categories (*Sale or Trade of Business, Depreciation, Rentals* and *Small Business/Self-Employed/Other Business*) that would seemingly focus on small businesses and self-employed taxpayers.

**Table 1. Selection of Tax Law Categories on the Digital Daily by
Small Businesses and Self-Employed Taxpayers**

16	Procedures	3	Estimated Tax
	Filing Requirements, Status,		Capital Gains, Losses, Sale of
13	Dependents, Exemptions	2	Home
	Itemized Deductions, Standard		Sale or Trade of Business,
5	Deductions	24	Depreciation, Rentals
	Interest, Dividends, Other Types		Small Business/Self-
5	of Income	81	Employed/Other Business
	Pensions, Annuity		Aliens & U.S. Citizens Living
	Individual Retirement	5	Abroad
2	Arrangement (IRA)		Electronic Filing and Tele-File
	Social Security Income		Magnetic Media Filers
	Child Care Credit, Other Credits	34	Other
	Earned Income Tax Credit		

Source: TIGTA Analysis of Electronic Tax Law Questions Quality Reviewed by the IRS During the 2001 Filing Season.

⁶ During the 2001 Filing Season, the CQRS selected 995 ETLA questions for quality review. However, we had access to only 994 ETLA questions for our review.

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

**The CQRS has implemented a manual coding procedure
to separate tax law questions by customer segment**

The quality review system used to measure the quality of service provided by the ETLA Program does not systemically capture the tax law category selected by the taxpayer. In recognition of the need to know the accuracy rate achieved for each customer segment, the IRS implemented a manual tracking procedure in February 2002. For each question selected for review, the quality review staff is now manually recording the tax law category selected by the taxpayer and, based on the content of the question, manually assigning a business operating division code to the electronic quality review document.

While this initiative is a positive first step toward giving IRS management feedback on the quality of service delivered to each customer segment, it is subjective since it depends on each reviewer's analysis and interpretation of the taxpayer's question. This method of coding questions by customer segment is also inexact since many questions received through the ETLA Program, such as those previously mentioned about IRAs, involve tax law issues that affect wage-earner taxpayers as well as small businesses and self-employed taxpayers.

Any future attempt by the IRS to measure the quality of responses to small businesses and self-employed taxpayers based on this method of identifying the customer segment would be statistically unreliable. One of the fundamental requirements of statistical sampling is that the population to be sampled must be clearly defined. Unsatisfactory results may be obtained when statistical sampling is applied to an improperly identified population.

**The IRS needs reliable, more specific measures of the
quality of service that the ETLA Program provides to
different segments of customers**

The ETLA Program offers small businesses and self-employed taxpayers a convenient communication medium for obtaining specialized tax law assistance. With the IRS' new focus on preventing problems rather than

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

addressing them after filing, the ETLA Program supports this change in direction by providing one-on-one assistance electronically, potentially resulting in fewer filing errors, decreased processing costs, and reduced taxpayer burden. Further, the ETLA Program reflects the vision of “government of the 21st century,” using information technology to communicate with its customers online.

Providing high-quality customer service to the small business community and the self-employed through the ETLA Program, as well as other customer contact media, is essential to the accomplishment of the IRS’ mission. As illustrated in the following table, the service needs of small businesses and self-employed taxpayers are potentially very different from the needs of taxpayers who are primarily wage earners.

Table 2. Taxpayer Characteristics for IRS Operating Divisions

Taxpayer Characteristics	IRS Operating Divisions	
	W&I	SB/SE
Number of Customers	88 million	45 million
Total Tax Liability (billions)	\$380	\$790
Average Tax Liability per Filer	\$4,310	\$20,231
Gross Cash Paid (billions)	\$46	\$915
Average No. of Transactions with IRS per filer/year	1-4	4-60
Percent Preparing own Returns	59%	20%
Average No. of Income Tax Forms	1.1	2.7

Source: 2000 IRS Organization Blueprint Document 11052, Rev. 4-2000.

One of the IRS’ guiding principles to achieving its strategic goals is the alignment of performance measures under the modernized organizational structure. Strict lines of accountability are needed to ensure that the IRS is achieving its mission to provide service to all taxpayers. Thus, it is critical that the IRS establish a method to reliably measure the quality of service provided to small businesses and self-employed taxpayers through the ETLA Program.

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

Several benefits would accrue by segmenting the questions by taxpayer type. First, information concerning the number of tax law questions submitted through the Internet by small businesses and self-employed taxpayers would assist IRS management in assigning resources to the ETLA Program. Second, a separate quality measure would enable the IRS to determine whether it is providing service to small businesses and self-employed taxpayers that is comparable to the service provided to individual taxpayers. Next, a separate measure would enable the IRS to supply its stakeholders, such as the Congress, with reliable information on the quality of services provided for this major customer segment. Finally, a separate quality measure would increase IRS management's ability to identify improvement opportunities so that these taxpayers could be even better served in the future.

Recommendation

1. The Commissioners of the SB/SE Division and the W&I Division should take action to ensure that reliable measures of the quality of service provided to each customer segment through the ETLA Program are developed. This could be accomplished by requesting that the Director, Electronic Tax Administration, modify the design of the *Digital Daily* so that taxpayers are required to indicate a specific customer segment before submitting a tax law question. This change would automatically segregate the questions submitted by small businesses and self-employed taxpayers from those submitted by wage earners, determine the population size of each group, and enable IRS management to develop a sampling plan for each that would provide a statistically reliable measure of the accuracy of the responses.

Management's Response: The Commissioner, SB/SE Division, responded that, while he agrees with the recommendation, there is a concern that capturing data about the type of customer (i.e., wage earners, self-employed, etc.) moves away from the Commissioner's

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

intention for the public portal to provide a totally anonymous, one-way interaction with the IRS. The SB/SE Division will work with the Internet Services Division of the Electronic Tax Administration organization to determine if the recommendation is feasible. If feasible, the *Digital Daily* will be revised to allow taxpayers to indicate a specific customer segment before submitting a question. The planned completion date of the feasibility study is January 1, 2003.

Office of Audit Comment: We appreciate the IRS' concern with wanting to maintain the anonymity of taxpayers when they interact with the *Digital Daily*. Since the IRS already requires taxpayers to provide their Email address when submitting questions to the ETLA Program, however, we do not believe that also requiring taxpayers to indicate a particular customer segment would further diminish the anonymity that they are already provided. Nevertheless, to avoid any perception that this additional information might be used to identify taxpayers, the IRS could include a disclosure statement on the *Digital Daily* that states that the customer segment information is solely used for measuring the quality of service provided.

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

Appendix I

Detailed Objective, Scope, and Methodology

Our objective was to determine whether the Internal Revenue Service (IRS) has a valid method for reliably measuring the quality of responses to tax law questions received from small businesses and self-employed taxpayers through the Electronic Tax Law Assistance (ETLA) Program.

To accomplish this objective, we:

- I. Reviewed the design of the IRS Internet web site, *Digital Daily*, used to submit tax law questions and evaluated the impact, if any, on accurately accounting for the quantity and quality of the responses to small businesses and self-employed taxpayers.
 - A. Examined the designs of the *Digital Daily* that were used in the 2001 and 2002 Filing Seasons¹ to ascertain the information gathered from taxpayers asking tax law questions.
 - B. Compared the 2001 and 2002 Filing Season and Fiscal Year inventory reports generated for the ETLA Program from the system called "Mailman."²
 - C. Reviewed the 2002 Cumulative Filing Season Statistics to determine the percentage change in ETLA Program receipts from 2001 to 2002.
 - D. Reviewed documentation discussing the redesigning of the *Digital Daily*.
 - E. Reviewed recent Treasury Inspector General for Tax Administration and General Accounting Office reports on the ETLA Program.
 - F. Interviewed IRS Statistics of Income personnel to ascertain the statistical validity of projecting a weighted estimate of small business and self-employed questions from the Centralized Quality Review Site's (CQRS) review of the 2001 Filing Season ETLA Program questions.
- II. Reviewed the planning process and evaluated the allocation of resources for responding to small business and self-employed tax law questions submitted to the ELTA Program.

¹ The Filing Season is the period from January through mid-April during which most individual income tax returns are filed.

² The computer software used by the IRS to sort, organize, and respond to taxpayer's questions received via the Internet.

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

- A. Reviewed planning documentation and interviewed managers and analysts to ascertain whether goals, measures, and strategies have been established to ensure the IRS has the capability to accurately report to its stakeholders (e.g., the Congress) about the quantity and quality of responses to small businesses and self-employed taxpayers.
 - B. Analyzed planning documentation and interviewed managers and analysts participating in the planning process to determine the resources deemed necessary to process the anticipated volume of small business and self-employed tax law questions.
- III. Evaluated managerial monitoring and oversight of the ETLA Program for ensuring that small businesses and self-employed taxpayers are given accurate responses to their tax law questions.
- A. Examined the reports generated from the Mailman system to determine whether management receives information on the quantity of questions involving small business and self-employed issues.
 - B. Evaluated the process that the CQRS employs to monitor the quality of the responses to small business and self-employment questions and the methods for informing employees answering tax law questions of quality issues identified during the monitoring.
- IV. Explored the feasibility of technological improvements for the ETLA Program to improve the accuracy of the Small Business/Self-Employed Division's ETLA Program responses.
- A. Reviewed the completed IRS research projects "Improving Customer Service and Satisfaction Research Strategy" and "Benefits of Ask the IRS Electronic Tax Law Assistance" to evaluate proposals and initiatives to upgrade the ETLA Program.
 - B. Obtained the Request for Information Services TCP-9-0198 to ascertain whether the proposed system enhancements to the ETLA Program have been implemented.

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

Appendix II

Major Contributors to This Report

Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs)

Philip Shropshire, Director

William E. Stewart, Audit Manager

Gwendolyn S. Gilboy, Auditor

Carol A. Rowland, Auditor

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner, Small Business/Self-Employed Division S
Deputy Commissioner, Wage and Investment Division W
Director, Accounts Management, Small Business/Self-Employed Division S:CAS:AM
Director, Accounts Management, Wage and Investment Division W:CAS:AM
Director, Compliance, Small Business/Self-Employed Division S:C
Director, Customer Account Services, Small Business/Self-Employed Division S:CAS
Director, Customer Account Services, Wage and Investment Division W:CAS
Director, Electronic Tax Administration, Wage and Investment Division W:ETA
Director, Taxpayer Education and Communication, Small Business/Self-Employed Division S:T
Chief, Program Management/Process Assurance, Small Business/Self-Employed
Division S:CAS:AM:PM
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Chief Counsel CC
National Taxpayer Advocate TA
Office of Management Controls N:CFO:F:M
Audit Liaisons:
Commissioner, Small Business/Self-Employed Division S
Commissioner, Wage and Investment Division W

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

Appendix IV

Senator Bond's Letter to the Internal Revenue Service

JOHN K. KERRY, MASSACHUSETTS, CHAIRMAN
CHRISTOPHER S. BOND, MISSOURI, RANKING MEMBER
CARL LEVIN, MICHIGAN
TOM HESKAMP, IOWA
JOSEPH E. BIRCHMAN, CONNECTICUT
PAUL D. WELLSTONE, MINNESOTA
MAX BAILEY, GEORGIA
BLANK LAMARCA, LOUISIANA
JOHN EDWARDS, NORTH CAROLINA
MARIA CANTWELL, WASHINGTON
JEAN CARNAHAN, MISSOURI
CONRAD BURNE, MONTANA
ROBERT F. BENNETT, UTAH
OLYMPIA J. ENOYE, MAINE
MICHAEL ENDS, WYOMING
PETER G. FITZGERALD, KENTUCKY
MIKE CRANFORD, KANSAS
GEORGE ALLEN, OREGON
JOHN ENSIGN, NEVADA
PATRICIA R. FORBES, MAJORITY STAFF DIRECTOR AND CHIEF COUNSEL
EMILIA DISANTO, REPUBLICAN STAFF DIRECTOR

United States Senate
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350

September 25, 2001

The Honorable Charles O. Rossotti
Commissioner
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, DC 20224

Mr. Joseph Kehoe
Commissioner
Small Business/Self-Employed Division
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, DC 20224

Dear Commissioners Rossotti and Kehoe:

At my request, the Treasury Inspector General for Tax Administration (TIGTA) performed a review of the Internal Revenue Service' (IRS) Electronic Tax Law Assistance (ETLA) program as a follow up to its initial review in September 2000. TIGTA's Management Advisory Report, entitled "The Electronic Tax Law Assistance Program Outperformed Other Free Internet Web Sites in Answering Small Business and Self-Employment Tax Law Questions" (Reference Number: 2001-30-155), again tested the accuracy and timeliness of IRS' response to tax questions that small business owners submitted through the ETLA program.

The results of this year's review, in part, were pleasantly surprising. TIGTA found that the IRS responded to 98% of the questions submitted on the same day or the following business day. This number is a substantial improvement over the 68% of businesses last year that received a response within the IRS' goal of responding within two business days, and it even surpassed the timeliness of the two commercial web sites sampled. I commend you for this improvement.

Unfortunately, TIGTA's positive findings did not extend to the accuracy rate of the IRS' responses to small business tax inquiries through ETLA. To my continued alarm, the TIGTA review found that out of the sample of questions concerning small business tax issues, the IRS provided the small business taxpayer with the correct answer only 45% of the time, which is a decline from the 54% accuracy rate in 2000. On a positive note, the current IRS rate is well above the 16% accuracy rate that TIGTA found among the commercial Internet web sites sampled.

Management Advisory Report: The Internal Revenue Service Needs a Reliable Measure of the Quality of Electronic Tax Law Assistance Provided to Small Businesses and Self-Employed Taxpayers

The Honorable Charles O. Rossotti
Mr. Joseph Kehoe
Page 2

While I recognize that TIGTA's review is based on a small sample of more difficult questions than the IRS usually receives in its toll-free call sites, the falling accuracy rate is extremely troubling and undermines the confidence of small business taxpayers in the IRS. I am particularly concerned by TIGTA's findings that 63% of the incorrect answers are the result of IRS employees not appropriately researching the issue. Moreover, of the questions that were posed both last year and this year, TIGTA found that some questions were answered correctly in one year but not the other. With the enormous complexities of our current tax code, it is not unreasonable for small business taxpayers to expect that the IRS will be able to give them the consistently correct answer to their tax questions.

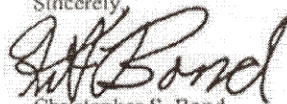
With the ETLA program continuing to grow in popularity, a 45% accuracy rate puts small businesses and self-employed taxpayers at substantial risk if they call on the IRS for help in complying with the tax law. A small business owner who relies on erroneous tax advice from the IRS can still be subject to penalties and interest for an incorrect return.

Once again, I urgently request that you take steps to improve the IRS' accuracy rate with respect to small business tax questions. As the new Ranking Member of the Senate Committee on Small Business and Entrepreneurship, I will continue my efforts in Congress to address the complexity of our current tax system, which is at the root of many of these problems. While we work to enact a simpler, fairer, and flatter tax code, the IRS must administer the current system in an accurate and consistent manner. A significant part of that responsibility includes giving taxpayers correct answers to their questions.

You both continue to make significant headway in modernizing the IRS to meet its dual mission of collecting taxes and providing top-quality customer service, and I strongly support and applaud your efforts. I hope the TIGTA's follow-on review of the ETLA Program will highlight an area in need of additional attention.

Thank you for looking into this matter and taking appropriate action to ensure that small business taxpayers can confidently rely on the IRS when seeking assistance with their tax returns. If you have any questions or would like to discuss this matter in greater detail, please do not hesitate to contact me or have your staff contact Mark Warren, the Committee's Tax Counsel, at 202/224-

Sincerely,



Christopher S. Bond
Ranking Member

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

Appendix V

Internal Revenue Service's Response to Senator Bond



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

NOV 06 2001

The Honorable Christopher S. Bond
Ranking Member
Senate Committee on Small Business and Entrepreneurship
United States Senate
Washington, DC 20510

Dear Senator Bond:

This letter is in response to your inquiry dated September 25, 2001, concerning the Treasury Inspector General for Tax Administration's (TIGTA's) audit of the Internal Revenue Service's (IRS') Electronic Tax Law Assistance (ETLA) Program. The Treasury Inspector General for Tax Administration issued a Management Advisory Report and made no recommendations for changes to the ETLA Program as a result of this audit. In fact, TIGTA found in their audit that we made substantial improvement over prior periods in the speed of responses to our customers. I appreciate your positive comments in this regard.

You mentioned TIGTA's finding that the accuracy of our ETLA responses to small business tax questions had declined. I do not agree with this finding. In fact, our GAO-endorsed statistically valid sampling of questions received showed we were accurate almost 83 percent of the time. Further, the Treasury Inspector General for Tax Administration acknowledged that the sample they selected was neither statistically valid nor necessarily representative of the quality of service the ETLA Program provided to taxpayers throughout the FY 2001 Filing Season. Therefore, while I believe we can improve, taking potentially unwarranted action based on this audit is not a prudent measure.

I assure you that we will continue our efforts to improve the timeliness and accuracy of our service to all our customers by monitoring the ETLA Program and improving it based on the results of our statistically valid random samples of responses. We are conducting skills assessments and determining specific training needs for our employees who will be involved in all phases of providing responses to tax-related questions. We are also designating sites to answer more specialized and difficult questions.

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

We are committed to improving the quality of service we provide to the taxpaying public, and I would be happy to discuss our programs in more detail. If you have any questions, please contact me or Bobby Hunt, Deputy Director, Taxpayer Education and Communication, at (202) 283-2627.

Sincerely,

Richard J. Morgante
for Joseph G. Kehoe

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

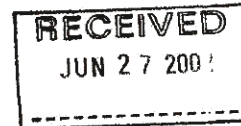
Appendix VI

Management's Response to the Draft Report




DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

JUN 26 2002



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Joseph G. Kehoe 
Commissioner, Small Business/Self-Employed Division

SUBJECT: Management Advisory Report – The Internal Revenue Service
Needs a Reliable Measure of the Quality of Electronic Tax Law
Assistance Provided to Small Businesses and Self-Employed
Taxpayers (Audit # 200130044)

I reviewed your report and, while I agree with your recommendation, several factors may impact implementing the recommendation. Capturing data about the type of customer (i.e., wage earners, self-employed, etc.) moves away from the Commissioner's intention of the public portal, which is to provide a totally anonymous, one-way interaction with the Internal Revenue Service. If gathering this additional piece of information from our users violates this principle of anonymity, we would have to place this type of application on our registered users portal. If this is the case, implementing your recommendation will take longer and cost more than using the public portal.

RECOMMENDATION 1

The Commissioners of the SB/SE Division and the W&I Division should take action to ensure that reliable measures of the quality of the service provided to each customer segment through the ETLA program are developed. This could be accomplished by requesting that the Director, Electronic Tax Administration, modify the design of the *Digital Daily* so that taxpayers are required to indicate a specific customer segment before submitting a tax law question. This change would automatically segregate the questions submitted by small businesses and self-employed taxpayers from those submitted by wage earners, determine the population size of each group, and enable IRS management to develop a sampling plan for each that would provide a statistically reliable measure of the accuracy of the responses.

ASSESSMENT OF CAUSE

When the IRS established operating divisions to address specific customer segments, it did not set up a mechanism to determine the quality of service ETLA provided to customer segments.

**Management Advisory Report: The Internal Revenue Service Needs
a Reliable Measure of the Quality of Electronic Tax Law Assistance
Provided to Small Businesses and Self-Employed Taxpayers**

2

CORRECTIVE ACTION

We will work with the Internet Services Division of the Electronic Tax Administration to determine if the recommendation is feasible. If feasible, the *Digital Daily* will be changed to allow taxpayers to indicate a specific customer segment before submitting a tax law question.

IMPLEMENTATION DATE

January 1, 2003 – Completion of feasibility study

January 1, 2004 – Implementation of changes to the *Digital Daily*

RESPONSIBLE OFFICIAL

Chief, Accounts Management (AM) Program Management & Process Assurance

CORRECTIVE ACTION MONITORING PLAN

Not Applicable

If you have any questions about this response, please contact John A. Ressler, Director, Customer Account Services, Small Business/Self-Employed, at (202) 927-0797, or Mike Sanderson, Chief, AM Program Management and Process Assurance, at (510) 637-2116.